

MOSSEL BAY MUNICIPALITY



Explore Endless Horizons!

LIQUIDITY POLICY

Contents

1. INTRODUCTION	<u>22</u>
2. BACKGROUND AND APPROACH	<u>22</u>
3. LEGISLATIVE REQUIREMENTS	<u>22</u>
4. LIQUIDITY POLICY	<u>33</u>
4.1. KEY COMPONENTS OF MINIMUM LIQUIDITY REQUIRED:	<u>33</u>
4.2. CALCULATION OF AVAILABLE LIQUIDITY	<u>44</u>
4.3. IMPLEMENTATION AND MONITORING OF COMPLIANCE WITH LIQUIDITY POLICY:	<u>55</u>
5. CORPORATE GOVERNANCE (OVERSIGHT).....	<u>66</u>
6. POLICY MANAGEMENT	<u>77</u>
ANNEXURE 1	<u>109</u>

1. INTRODUCTION

The documented Liquidity Policy sets out the minimum risk management measures that Mossel Bay Municipality has to implement and adhere to in order to ensure that its current and future liquidity position is managed in a prudent manner.

Liquidity is the amount of cash and / or “near cash” (which refers to assets or security that can easily and quickly be converted to cash), available to be utilised to meet obligations and / or pay commitments. The marketability or ability to buy or sell an asset without incurring unacceptable large losses thus determines the liquidity of an asset or defines it as near cash.

This Policy is implemented to provide guidance on the minimum liquidity level that Mossel Bay Municipality has to maintain in order to comply with required legislative and / or National Treasury directives and within the overall financial management objectives as approved/reviewed by the Council from time to time.

2. BACKGROUND AND APPROACH

Various policies and procedures exist that direct the way in which the business of Mossel Bay Municipality is or should be conducted in a prudent manner. Generally, these policies and procedures flow from the prescription made in Legislation i.e. the Municipal Finance Management Act (“MFMA”) and/or directives issued by a national department such as National Treasury.

Guidelines provided by National Treasury indicate that an acceptable level of cash resources needs to be available for working capital requirements (see below).

It is for this reason that the need to have an official Liquidity Policy was identified.

3. LEGISLATIVE REQUIREMENTS

3.1. The MFMA circular 71 stipulates the following two prescribed ratios to manage liquidity:

Cash/Cost Coverage Ratio (Excluding Unspent Conditional Grants) is calculated as:

((Cash and Cash Equivalents - Unspent Conditional Grants - Overdraft) + Short Term Investment) / Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation, Provision for Bad Debts, Impairment and Loss on Disposal of Assets)

Criteria: 1 – 3 times

Current Ratio: Current Assets / Current Liabilities

Criteria: 1.5 - 2:1

The above guidelines are noted but the proposed policy is more conservative to ensure that the municipality secures its strong financial position thereby providing comfort to investors.

4. LIQUIDITY POLICY

- 4.1. This policy provides guidance on the determination of the minimum liquidity requirement and the calculation of the liquidity available of Mossel Bay Municipality from time to time. Annexure 1 Provides the detail format for the calculation thereof.
- 4.2. Notwithstanding the requirements as reflected in this policy, Mossel Bay Municipality should ensure that its Current Assets (excluding the cash portion set aside for long term provisions made for landfill site rehabilitation and clearing of alien vegetation) cover all of its Current Liabilities at least 1.75 times.

The policy encapsulates certain key aspects and considerations which have been outlined below:

4.3. KEY COMPONENTS OF MINIMUM LIQUIDITY REQUIRED:

The following constitutes the key elements to take into consideration when determining the liquidity requirement of Mossel Bay Municipality:

- 4.3.1. To comply with statutory requirements, ~~–~~the following funds, reserves and provisions must be fully covered by unencumbered cash and investments:
 - 4.3.1.1. All earmarked or conditional grant transfers from spheres of Government or from Public Contributions made to Mossel Bay Municipality that have not yet been utilised;
 - 4.3.1.2. All commitments resulting from the legally entrenched rights and benefits employees have, with specific reference to the Council's short term commitment to staff retirement benefits and medical fund claims payable;
 - 4.3.1.3. All funds not yet been utilised in relation to agency services provided on behalf of Provincial or National Government should also be treated as earmarked funds; and

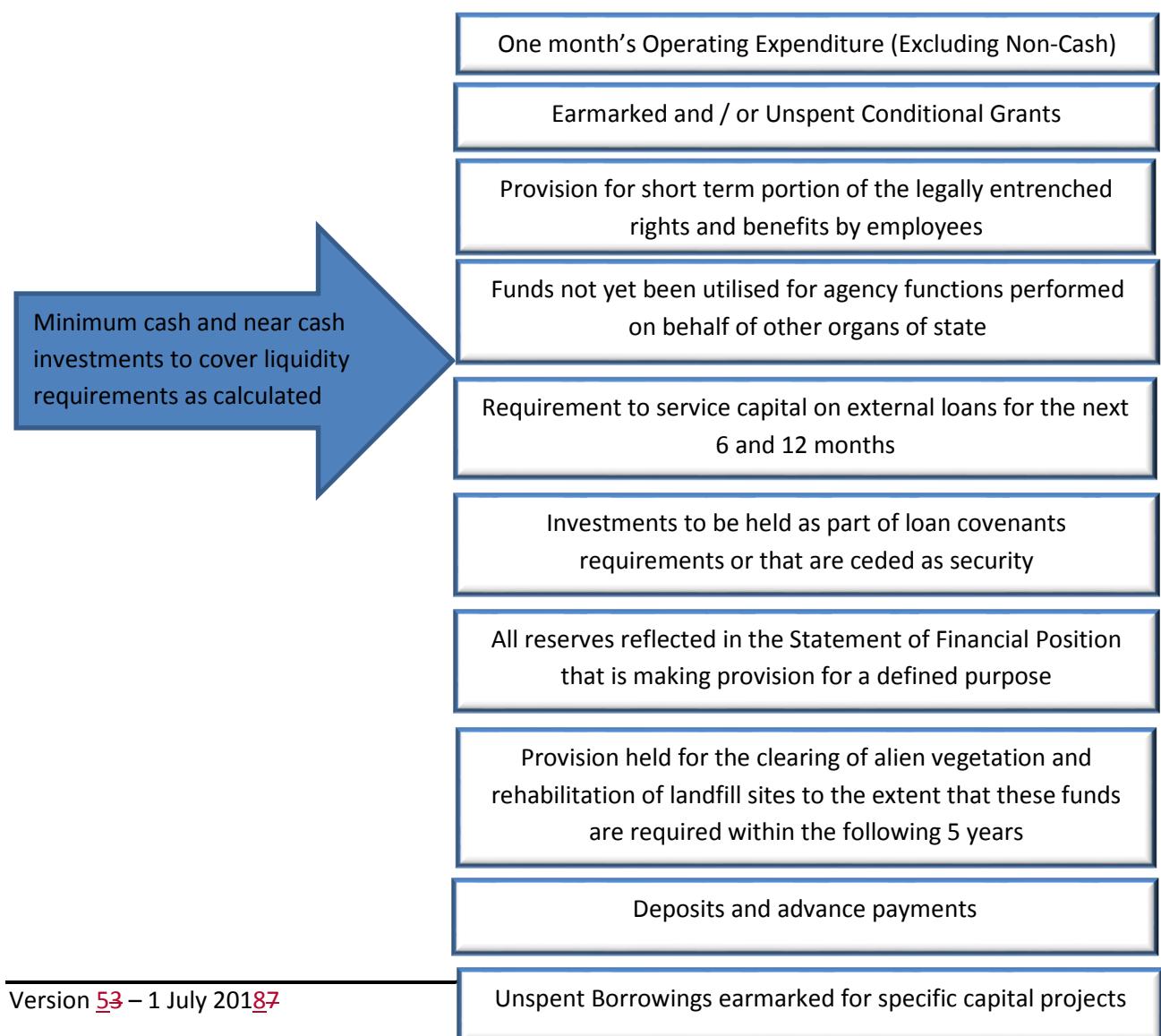
- 4.3.1.4. All reserves stated by Mossel Bay Municipality on its Statement of Financial Position that have been established for the purposes of making provisions for a defined purpose;
 - 4.3.1.5. All unspent borrowings earmarked for completion of specific capital projects;
 - 4.3.1.6. Provisions for the clearing of alien vegetation and the rehabilitation of landfill sites to the extent that these funds are required within the following 5 years.
 - 4.3.1.7. Deposits and advance payments, including Consumer deposits, retentions and payments received in advance. Other deposits that should immediately be available should also be included in the liquidity requirement.
- 4.3.2. Cognisance also needs to be taken of the external loan commitments and the servicing of capital and interest on these loans. Therefore, provision should be made that Mossel Bay Municipality can meet its external loan/financial commitments together with the normal operational expenditure, as well as its liabilities to staff.
 - 4.3.3. All investments ceded as security against long term loans need to be excluded from total cash and investment balances for calculation of the minimum liquidity level required.
 - 4.3.4. In addition, a level of cash available for normal operational expenditure needs to be held in cash to ensure that, notwithstanding fluctuations in the monthly income levels of Mossel Bay Municipality, Mossel Bay Municipality will be in a position to meet its financial requirements. In this respect, the average monthly operational expenditure needs to be used as a guide of the minimum buffer required. One month's operational expenditure excluding debt impairments, depreciation and other non-cash expenses should be available for liquidity cover.
 - 4.3.5. The "golden rule" is to ensure that Mossel Bay ~~Local~~ Municipality will have adequate liquid assets (those that can be made into cash within 24 hours, weekly or monthly as the requirement might be) to meet its short term financial commitments.

4.4. CALCULATION OF AVAILABLE LIQUIDITY

- 4.4.1. The amount of liquidity available should be determined at least once a month.
- 4.4.2. The following, should be regarded as cash and or near cash in calculating the available liquidity:
 - 4.4.2.1. All cash held in a bank account or invested with a money market fund;

- 4.4.2.2. 95% of the value of all NCD's or other tradable instruments issued by a bank that are not already ceded;
- 4.4.2.3. 90% of the market value of all listed bonds on the JSE in which Mossel Bay Municipality is allowed to invest in;
- 4.4.2.4. Consumer debtors aged current to 60 days;
- 4.4.2.5. Amount of unspent conditional grants and public contributions excluded from own funds held in bank accounts;
- 4.4.2.6. Funds provided to Council for expenditure on activities executed on behalf of other spheres of Government (Provincial and / or National) as part of an agency function, excluded from own funds held in bank accounts;
- 4.4.2.7. Funds ring-fenced for cash backed reserves that are excluded from own funds held in bank accounts;
- 4.4.2.8. Cash amounts that need to be held by Council resulting from loan agreements that are part of the conditions of loans extended, but not ceded outright to lenders;
- 4.4.2.9. The undrawn portion of unconditional bank overdraft facility or liquidity facility available to Mossel Bay Municipality.

4.4.3. The aforementioned in paragraphs can schematically be reflected as follows:



4.5. IMPLEMENTATION AND MONITORING OF COMPLIANCE WITH LIQUIDITY POLICY:

- 4.5.1. The Chief Financial Officer must ensure that the required cash -are maintained to continue meeting the requirements as set out in this policy.
- 4.5.2. The minimum required liquidity level should be calculated based on audited annual financial statements.
- 4.5.3. When compiling the annual budget or any adjustment budget the level of liquidity required in terms of this policy needs to be maintained taken into account budgeted revenue (including collection rates) and the expenditure (both capital and operational in nature).
- 4.5.4. The liquidity level must be reported to the Council and its committees on a quarterly basis or as might be stipulated by Council.
- 4.5.5. Notwithstanding National Treasury's three months' operational expenditure guideline and the one-month operational expenditure buffer proposed as a minimum by the liquidity policy, the target for Mossel Bay Municipality is one month's operational expenditure liquidity buffer at the end of the transitional period (reference paragraph 6).
- 4.5.6. The cash provisions made to repay external loan commitments, if specifically earmarked, should also be added to this minimum working capital liquidity, to prevent fluctuations in the working capital reserve that could put the minimum level of liquidity levels under pressure.

5. CORPORATE GOVERNANCE (OVERSIGHT)

- 5.1. The minimum liquidity requirements must be determined, at least, on a monthly basis by the Chief Financial Officer and reported to the Municipal Manager.
- 5.2. Compliance with this policy will be monitored by the Chief Financial Officer. The Chief Financial Officer must present the liquidity compliance reports to the Finance Committee and the Audit Committee of the municipality.
- 5.3. Where compliance has been breached the Chief Financial Officer must present an action plan to correct the non-compliance. The Finance Committee must monitor the successful implementation of the corrective action plans and report progress to Council.

6. POLICY MANAGEMENT

- 6.1. The Liquidity Policy forms part of Mossel Bay Municipality overall financial objectives and therefore forms part of approved Budget related policies.
- 6.2. The policy must be reviewed at least annually during the budget revision and presented to Council for approval.
- 6.3. The policy is effective from 1 July 20187.

DOCUMENT AND VERSION CONTROL

Version: **Revision 54**

Date: **Marchy 20187**

Summary: This document describes the Liquidity Policy that will be applicable to the Mossel Bay Municipality, with effect from

1 July 20187

Signature: Date: 31/05/2018
Municipal Manager
(Accounting Officer)

Signature: Date: 31/05/2018
Executive Mayor

Signature:  Date: 31/05/2017
Municipal Manager
(Accounting Officer)

Signature:  Date: 31/05/2017
Executive Mayor

ANNEXURE 1Liquidity Requirement as per Liquidity Policy

Financial Year End: _____

Liquidity Requirement Calculation [as stipulated in Paragraph 4.31.]

All earmarked and/or conditional grants received but not yet utilised	
Value of the provisions held in cash for the clearing of alien vegetation and the rehabilitation of landfill sites to the extent that these funds are required within the following 5 years	
Value of legally entrenched short term rights and benefits of employees related to Medical benefits & Retirement benefits	
Unspent Loan Funds	
Funds held for agency services not yet performed	
Reserve funds reflected in Statement of Financial Position that are assumed to be held in cash	
Capital redemption and interest payments on external loans not reflected as part of normal operational expenditure	
Unspent Borrowings earmarked for specific capital projects	
1 months operational expenditure excluding non-cash items	
Other Deposits and Other Advance Payments:	
- Retentions	
- Payments Received in Advance	
- Other Deposits	
Non-current Deposit: Pavilion	
Commitments resulting from contracts concluded as part of Capex Programme, not reflected in operational budget	

TOTAL LIQUIDITY REQUIREMENT***Actual available liquidity held [reference paragraph 4.42.]***

Bank Balance at e.g.:	
- ABSA, FNB, Standard Bank, Nedbank, Investec, Money Market	
Bank balance sub total	
95% of all other term investments with Banks	
90% of Market value of all Bonds on the JSE that are held	
Consumer debtors (current – 60 days)	
Other reserves held in cash not reflected in bank balances mentioned above for e.g.:	
- Unspent conditional grants	
- Payments received for agency functions not yet performed	
- The cash value of reserves held	
- Cash deposits held as part of loan covenants or ceded	
- Undrawn bank overdraft facility or committed liquidity lines available	

TOTAL LIQUIDITY AVAILABLE**LIQUIDITY SURPLUS (SHORT FALL)**

SURPLUS TO BE APPROPRIATED TO CAPITAL
REPLACEMENT RESERVE

(See Borrowing, Funds and Reserves Policy)

Minimum Liquidity ratio (1.75:1):

Current Asset (less cash held for the long-term provision of rehabilitation of landfill sites and clearing of alien vegetation) /Current Liabilities
